

Tax Study Commission: It's time

By Governor Haley Barbour

When I ran for re-election in 2007, I was proud to campaign on my record as Governor. Since 2004, working together, we've enacted comprehensive tort reform, had record funding increases for sectors like education and law enforcement, and balanced the state budget — all without raising anyone's taxes.

We've also seen creation of more than 60,000 net new jobs and enjoyed the third highest growth rate in per capita income in the nation.

All of these are positive indicators of a bright future.

I also campaigned on a promise to create a Tax Study Commission that would analyze the state's tax code and recommend reforms. I knew this long overdue Commission would be the best way to accomplish true tax reform — and hopefully, tax cuts — for hardworking Mississippians.

In January, I announced the creation of this public-private Commission, which is designed to take a comprehensive — not piecemeal — approach to tax reform by studying how federal, state and local tax structures affect Mississippi citizens and businesses. After all, the largest item in the typical American family's budget is government, i.e., taxes, and it's imperative the system be fair and equitable.

I have instructed the Commission to present a report by August 31, 2008 – after completion of Fiscal Year 2008 – to me, the Mississippi Legislature and the public. Leland Speed, a Jackson businessman and former executive director of the Mississippi Development Authority, chairs the commission.

Broad tax reforms should not be undertaken lightly. Most states have at least considered reconfiguring their tax structure. According to the National Conference of State Legislatures, 37 states have conducted tax studies since 2000 on how they assess taxes on their people. These states include our Southern neighbors North Carolina, South Carolina, Tennessee, and Georgia.

For Mississippi, I hope the Tax Study Commission will work to identify our system's strengths and weaknesses, while ensuring that everybody pays his or her fair share; that the effect is pro-growth and pro-job creation; and that it generates sufficient revenue to fund state government at necessary, appropriate levels. It is important for our state to modernize the system.

Data from the Census Bureau has shown that Americans have been moving away from states with overly burdensome taxes and resettling in Southern states with more reasonable taxes. We have seen this trend as manufacturing jobs move to the Southeast and new entrants such as Toyota choose to build in the South. As businesses and entrepreneurs search for more attractive business locations, it is important that Mississippi's business climate be competitive with our neighbors.

I've urged the Tax Study Commission to focus on revenue, not spending. We must recognize the tax burden and understand how it is spread across all taxpayers. As I have said publicly, everything is on the table. While my goal during my second term is to have a significant tax cut, I recognize an honest study of the tax laws may recommend that some taxes be adjusted up.

We must also study the impact on local governments. Local governments use property taxes (on real and personal property) as the foundation of local taxation. Additionally, the municipalities get a share of sales tax revenues generated by sales within each municipality.

When we talk about general sales tax, Mississippi is often cited as having a high general sales tax rate; however, Mississippi, unlike other states, does not allow its localities to assess a local general sales tax, the only exception being Tupelo, which years ago was authorized to levy a local general sales tax of .25% (1/4 of 1%). Instead, Mississippi remits back general sales tax revenue to local governments. When you consider both our state and local sales tax rates, Mississippi's general sales tax rates are actually below those of cities in our bordering states of Louisiana, Arkansas, and Tennessee.

Some state tax studies do not take into consideration either federal or local taxes — what I see as a piecemeal approach to tax reform. These studies often report low income residents pay a higher share of their income as taxes, and that higher income residents pay too small a portion of their income in taxes. While this may be true when one looks only at the state system, all Mississippi taxpayers are also subject to federal and local taxes. Higher income residents pay the

overwhelming amount of federal taxes, and low income residents pay very little or none. Indeed, many low income individuals who pay payroll taxes actually get more back in earned income tax credit (EITC) from the federal government than they pay in. EITC, by the way, is a great welfare program because all recipients work.

According to the IRS, approximately one third of American tax filers do not pay any federal income tax, and in Mississippi that number is even higher. Forty three percent of Mississippi tax filers pay no federal income tax, or get money back.

There has been an effort in the Legislature for the last several years to raise the tax on tobacco products. I am sure the Commission will look at this. Although I oppose raising anybody's taxes, I've told Commission members they should look at everything. Some legislators have recommended very large cigarette tax increases. I have suggested that the Commission review the effects of a large increase both on usage and on consumers' willingness to go to the next state to purchase cigarettes.

The other side of the tax swap from a tobacco tax increase was first to eliminate and then alternatively reduce by half the sales tax on groceries. But this so-called tax swap would have been risky, since no one, including the Mississippi State Tax Commission, knows how much sales tax is collected on groceries, or unprepared food.

A major element of economic development is transportation, and public-private organizations have been organizing in the state to look at financing the construction and maintenance of our highway system. I have urged the Tax Study Commission to look at these issues, too. Our state highway system is largely financed by fuel tax revenue plus federal assistance, which is also largely financed by fuel tax revenue. It is widely reported that growth in fuel taxes recently has been non-existent at best, because it is strictly tied to volume, and fuel consumed per mile driven has decreased considerably in recent decades. On the other hand, the cost per mile of construction and/or maintenance has gone up precipitously in recent decades.

The purpose of the Tax Study Commission is to conduct a comprehensive study of the state tax system, taking into consideration the federal and local tax loads as well. This unified approach will provide a clearer, more accurate picture of the entire tax system than has been available to the Legislature and the public in the past. The Commission members come from business, legal, and academic backgrounds and include a number of state legislators and local

government officials, yet they also share a common bond in that they are all Mississippi taxpayers.

I look forward to their meetings – the next one is scheduled April 29 at Jackson State University – and getting their report in August.

A link to information about the tax study is available at www.governorbarbour.com.